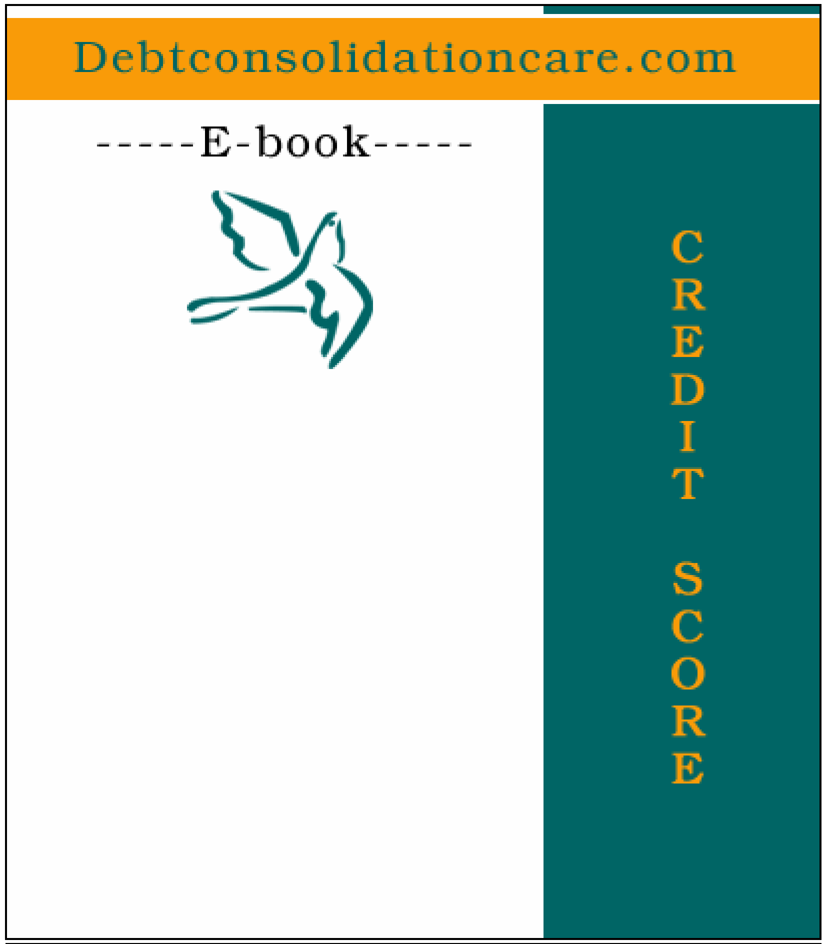

CREDIT SCORE

THE QUINTESSENTIAL THERAPY FOR A HAPPY POCKET

BY **Jason Holmes** (http://www.debtconsolidationcare.com)

In Collaboration With

Peter Samuels (DEBT SAMARITAN)

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Acknowledgements

The author of this E- Book, Peter Samuels is a Debt Samaritan from the debt consolidation care site. He is a Financial Consultant by profession and a visiting consultant for other financial sites. Inspired by the vision of the debt consolidation care team, "of building a debt free community in the near future", he has volunteered gladly to be a part-taker of this noble mission. His contributions are dedicated to guide the general masses who are suffering from debt and financial problems.

Edited by Jason Holmes, who is a regular writer with the debt consolidation care team and a contributory writer for other financial sites.

Conceptualized by Denny Mathew who is the admin and an integral part of the debt consolidation care team.

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About debtconsolidationcare.com

Debt Consolidation Care is a premium quality website rendering its members with debt consolidation solutions along with free financial analysis and counseling. The site offers resources & guidance on debt related issues. Experienced credit counseling is arranged to analyze the best solution for every debtor, keeping in mind their present financial status. The Article section in the site offers you a wide range of informative articles. Important synopsis on American State Laws & their proceedings are also helpful.

"Do It Yourself" guides the debtors to plan a budget, assess financial limits & consolidate debts, without the help of a debt consolidation company. A step by step guidance on bad credit repairing is also available in the site. Creditor's database comprises of creditor's information across all the States of America. There is also a varied range of sample letters written to the creditors for your requirements. A smart Reduction Calculator calculates the total debt amount & savings you are likely to have if you opt for debt consolidation. The forum is a joint for open discussions and useful advice on any debt related issues. It is also a place to chill out with mutual conversations between friends. The customers are handled with immense care and are rendered with prompt services and useful solutions.

The pivotal vision of debt consolidation care is to build a debt free community in the very near future.

About Debt Samaritans

Debt Samaritans are the volunteers who are dedicated reformers and devote time to counsel and advice the debt struck people from the claws of debt and financial miseries. A debt Samaritan has a helpful and a compassionate mind. He empathizes with people in debt. He is the one to whom others can bank on at times of financial trouble. A selfless heart and a helpful spirit along with some knowledge of solving debt and financial problems are qualities one needs to possess in order to become a Debt Samaritan. It is just not funds you need, but a patient hearing and a hand to guide you through the rough financial patch is equally important.

If you want to join the Samaritan's Club you are just a smile away.

A person who voluntarily offers help can join our Debt Samaritan Club. There are no formalities to become a Debt Samaritan.

All you have to do is mail jason@debtconsolidationcare.com or simon@debtconsolidationcare.com and express your desire towards this noble cause. Also mention the reason behind your wish to enact this role.

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What is a Credit Score?

A credit score is a number which is assigned to you, generated by the credit bureaus by reviewing your past credit history. It helps the lenders in determining whether you have the financial strength to return the money within the given time period. In a nut shell it is like a synopsis of your credit worthiness.

Credit score is the most important aspect that determines your financial future. Carrying a good credit score is an asset and can assure you of a secured financial future. On the other hand a bad credit score will result in higher cost when you need to borrow money. "There isn’t much anyone can do for those who will not do something for themselves." The same is applicable for credit scores. Your prime aim is to maintain a good credit score and lead a financially planned life.

When you apply for a loan, your credit score plays a vital role in the approval of the loan. This is because your credit score reflects your ability to repay your credit. Your credit score is the most important feature of your credit health. The approval of a loan depends on an individual’s credit history. This again is relevant in terms of interest rate, fees, and other charges which are usually charged and varies from one person to another. You need to be aware of the important factors that evaluate your credit worthiness. This will make you more cautious and allow you to mend the risks before you finally apply for a loan.

Most lenders consider people having credit score above 650 to be the prime borrowers. This means they will most likely be approved at favorable interest rates. According to credit report from Equifax, 71% of the people with a credit score from 500-550 will default on their credit. Another 51% of buyers with a credit score from 550-600 will also default on their credit. Those individuals having credit scores of 650 or more is considered to have a decent credit score. Factors taken into consideration for calculating Credit Scores

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Factors for calculating your Credit Score

Payment History (**on an average 35% of your score is based on this history**). When you apply for a loan the first thing that a lender usually examines is whether you have any unpaid credit accounts in the past. This is because any history of late payments may decrease your score although this happens in rare occasions. A late payment occurring once or twice is outweighed by an overall good credit picture. Again if you do not have any history of a late payment that does not mean that your credit score will improve. This is because late payment is only one of the factors that are considered to evaluate your score.

The general payment information which your score takes into account is:

1. **Various types of account information:** While calculating your credit score information on your credit card accounts, loan accounts, finance company accounts are taken into consideration.

   (a) Public records: This type of payment information is considered very serious because this deals with reports of bankruptcies, wage attachments, liens, and judgments. Hence, any recent report of larger amounts will decrease your score heavily. Bankruptcy will remain in your report for 7-10 years depending on the type.

   (b) Accounts reflecting no late payments: If the accounts which you owe show no late payments then it will definitely improve your credit score.

   (c) Late payments detail: Information on your late payment accounts like the amount you owe, age of those accounts, number of those accounts are considered for evaluating your credit score.

2. **How much amount do you owe on an average?** 30% of your score is based on this criterion: You may have credit accounts but that does not mean that your credit score will be lowered or the lender will undertake greater risk, if he approves your loan. But the risk factor arises when the credit amounts go beyond your affordability level. This might give some red signal to the lender about your loan repayment credibility. In determining credit score the credit bureaus consider the amount you owe on specific type of accounts such as credit card accounts, and installment loans. The basic principle considered for determining credit score is how much excess money you owe when compared to your income.

3. **Duration of your credit history:** Almost 15% of your score depends on this factor: Your score as an individual will increase if you have a long credit history which will help you as a borrower at the time you seek to avail a loan. However, even if you are not using credits for long, your score can improve provided other information on your credit report is fulfilling the criteria.

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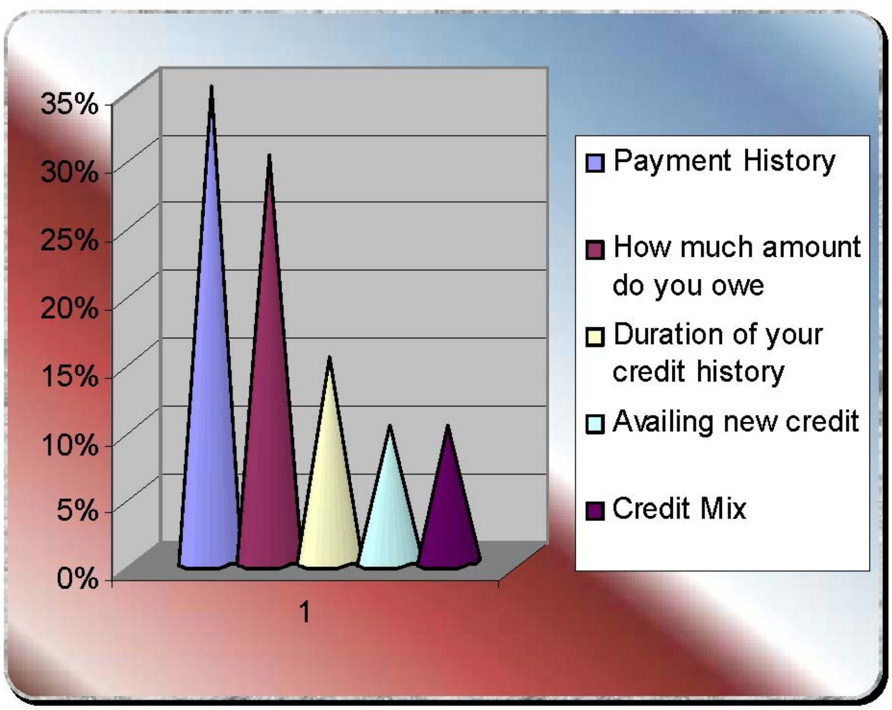
4. **Availing a new credit: Attributes almost 10% of your score:** There is a general tendency among us to open many credit accounts and opt for online shopping. You may have the desire to open or own multiple credit accounts but that may affect your credit score. This happens because this aspect increases your credit risk especially if you do not have a long credit history. If you have multiple credit requests then it increases your credit risk further. In general while determining your credit score the credit bureaus does consider the type of accounts you have opened, the age of those accounts, whether you made any recent credit request or not, and whether you recently have a good credit history. Thus opting for credit accounts neglecting your score is not a prudent decision.

5. **Credit Mix:** Manipulates at least 10% of your credit score: Your score will bring into consideration your credit cards; retail accounts; installment loan accounts; finance company accounts and mortgage loan accounts. For the purpose of increasing your credit score it is not a good idea to open credit accounts which you do not intend to use.

The above factors are depicted in graphic images:



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All the above stated factors if kept in mind can help you to increase your score. This is because a good credit score permits you to have better credit offers, low interest rates while availing any loan, and speedy credit approvals.

For example, Mr. Reeve's credit score is 710. If he has a 30 year fixed mortgage of $ 150,000 he can save approximately $ 131,000 over the life of the loan or $ 365 on each monthly payment. Now if you can increase your score from 550 to 710 you will also be benefited like Mr. Reeves.

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Risks associated with Credit Score

Your credit score reflects your financial status and your credibility for future financial privileges. You need to be very careful about your credit score as it is the most important financial document. With a low credit score your credibility factor becomes risky. A respectable credit score is considered as 650 and above.

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Factors that influences your Credit Score

In general the lenders who forwards credit to the borrowers buy credit reports from the credit reporting agency for their prospective applicants and customers.

The credit report contains your credit history as reported by the credit reporting agency and also the time when you availed the credit. It contains in detail the type of credit you availed, the duration for which the account was open, and whether you are regular enough in paying your bills. A broader view of your credit history is being reflected in your credit report. In fact information regarding your borrowing activities can be jotted down from your credit report. This ability to correlate all the information makes credit report highly useful.

Verify your credit report

You should verify the credit report from each credit reporting agency once a year. Make sure that you check your credit report before you make any large purchase like a car or a house. While checking your credit report if you come across any sort of mistakes or false information make sure to report it immediately to the credit reporting agency. This should be done within a span of 30 days from the day you received your report. You need to notify this fact to the lender also.

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Contents in a Credit Report

Identity information:

This information generally contains your name, address, social security number, date of birth, and employment information. For credit scoring these information are not required. This information is provided by you to the lender.

Trade lines:

Under this head you get access to your credit account details. This may include the type of account, opening date of the account, credit limit granted to you or the amount of the loan, the balance, and your payment history.

Inquiries:

The term means that you give permission to your lender to ask for a copy of your credit report from a credit reporting agency. The document also contains a list of every one who has seen your credit report during the last two years.

Public record and Collection items:

A credit reporting agency collects information about bankruptcies, foreclosures, from state and county courts and information on your overdue debts from Collection Agencies.

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Benefits of Credit Score

Faster loan approval:

Since scores can be availed in minutes from any of the major credit bureaus, lenders can process loan applications much faster. Nowadays even mortgage loans can be processed within an hour instead of a week if a borrower passes out the lenders score margin. Thus credit score helps in two ways. Firstly a borrower can have the loan instantaneously and the lender who is granting the loan can check the credibility of the borrower in minutes.

Credit decisions are Fairer:

Lenders by using the credit score can concentrate on the credit risk of the borrower instead of focusing on other factors pertaining to a borrower like gender, race, religion, nationality, and marital status. Hence credit decisions taken by the lenders are taken on a free and fair basis.

Older credit problems do no count much

Your past credit problems is not a major problem because credit score always value positive information more than credit problems. Any recent good payment options made by you which depicts that you are doing your best to manage your credit record regularly will have a positive effect on your credit score.

More credit can be approved

By evaluating credit scores lenders are likely to approve more credit because credit score helps the lender to have a clear picture on the debtor's ability to pay back the loan in future. This allows them to take good credit decisions. The use of credit scores allows the lender to grant more loans to individuals because they can have a clear perception about the credit risk they are undertaking on the borrowers behalf.

Decreases the credit rates lower

When the lenders can approve more credit to the borrowers, the cost of availing the credit becomes much lower as well as the cost of granting the credit. This is just because of availability of online credit scores to the lenders.

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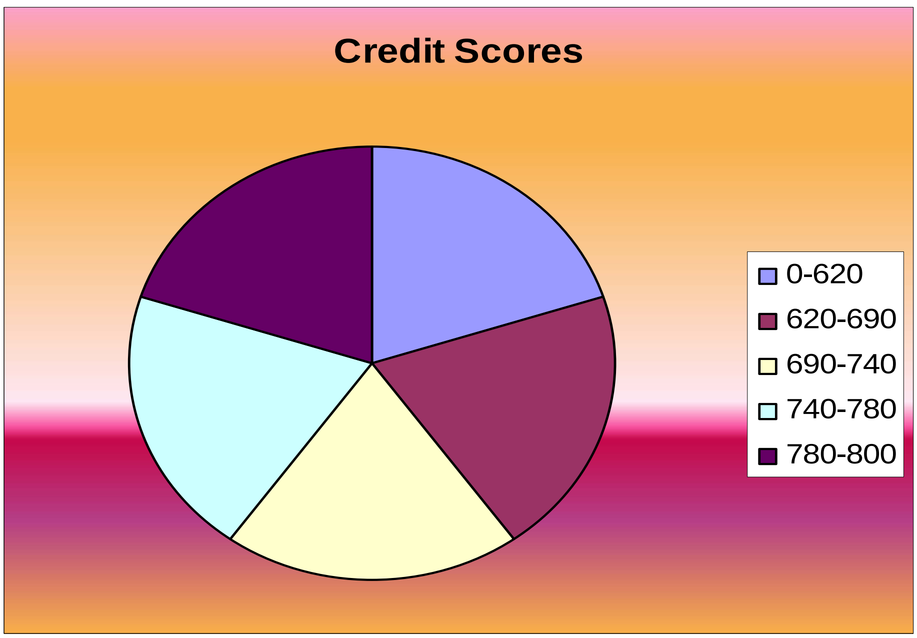
How Credit Scores are calculated?

A credit score can be purchased by a lender along with your credit report. The calculation of this score is done with the help of mathematical equation which evaluates the information on your credit report at that credit reporting agency. The information is compared with hundreds of past credit reports and then your future credit risk level is generated. This credit risk level is considered by the lenders while lending any loan to you.

Average Credit Score of people



In general the range of the scores varies from 300 to 800 and no customer is graded as good or bad. Also there is no single cut off score used by lenders.

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Tips to improve your Credit Score

1. Always try to maintain a good track record of paying your bills on time. This will help you to enhance the credit score.

2. Be aware of the fact that when you miss a payment on any collection accounts and try to close the account the report of the account will always be there on your credit report. So try to avoid that.

3. Visiting a credit counselor will not affect your credit score or make you lose some points. Instead if you can manage your credit well then surely your score will improve in due course of time.

4. You should always try to keep your balances on credit card and other revolving credit card account as low as possible.

5. Try to pay off your debts instead of postponing the payment. Stop closing unused credit card accounts with a view to increase your score.

6. Avoid opening a number of new credit cards which you do not need in order to increase your score as this may put you in trouble later on.

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The Legal Eye

The Equal Credit Opportunity Act states that if you are not allowed to obtain your credit you have every right to know the reason. But this should be done within the forthcoming 30 days. The act also entitles you to obtain a free credit report within 60 days from any credit reporting agencies.

Thus credit score and credit report is a must for you to get any sort of credit help or favor from the lenders in terms of low interest rate. Hence it is very important for you to take due care for managing your credit well and maintain a healthy credit score.

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Glossary

We have enlisted some terminologies related to credit score for your convenience. For more relevant terminologies please check out our debt glossary .

1. **A-Credit:** The ideal credit rating for a consumer. Having a good credit score lowers the prices which the lenders usually offer you. Usually a FICO score above 720 fetches you the best deal.

2. **Annual Fee:** A credit card issuer may charge you a fee each year for your account.

3. **Annual Percentage Rate:** When a lender grants a particular amount as loan to a borrower he also charges some amount as an interest rate either annually as Annual Percentage Rate (APR) or on a monthly basis. This is known as rate.

4. **Balance:** The amount of the loan which is unpaid. It is equal to the loan amount minus the sum of all prior payments to the principal.

5. **Base Loan Amount:** The original loan amount on which loan payments are based. If additional charges accrue, those costs are added to the original loan amount.

6. **Bankruptcy:** When a person is unable to meet his financial obligations he is declared bankrupt by a decree of the court. The Federal Bankruptcy Law states that this person's property is then used to satisfy the creditors. He can relieve the debts by transferring his assets to a trustee to clear his debts. Different chapters or types of bankruptcy exist amongst which Chapter 7 and Chapter 13 is the most popular ones. If a person files bankruptcy, a record of the filing appears on the borrower's credit report for up to 10 years.

7. **Borrower:** A person who takes money in the form of a loan and is committed to pay it back. This repayment in most cases has an additional interest amount added to the original amount of money borrowed.

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8. **Credit:** A particular sum of money granted by a creditor with the provisions for the borrower to pay in the future. It also means an amount of money an individual owes to a person or business.

9. **Credit Bureau:** An agency that maintains the records of your credit record and issues it to you when required.

10. **Credit History**: The overall financial record of the monetary transactions you dealt with. It shows the amount of money you borrowed, the amount you repaid and the sum which you still need to pay back.

11. **Credit Report**: The credit report is a financial document which consists of a person's credit history and also reflects his updated financial position. A credit report determines an individual's credit worthiness. An individual can acquire his credit reports from credit bureaus.

12. **Credit Reporting Company:** These are companies that compile reports on an individual's credit history from multiple credit repositories and merge them into a wholesome credit report.

13. **Credit Repository**: Companies that gather financial information on an individual's credit history and gives the updated feedback to credit reporting companies.

14. **Credit Scoring System:** This is a highly statistical process used to grade individuals who have applied for credit, based on the various characteristics applicable to creditworthiness.

15. **Credit Warranty:** This is a written guarantee or commitment about the creditworthiness of the borrower given by the seller of the loan. The seller guarantees that the main intention of the borrower is to repay the loan under any condition and that he has got a good reputation in handling credit.

16. **Creditor:** A person or a financial house who lends money.

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17. **Creditworthiness:** Relates to past credit records and future ability to repay debts based on your current financial position.

18. **Credit Grantor:** Person or any business house supplying consumer goods in credit system.

19. **Credit type:** This is a reference to the type of credit you are undergoing. This type of credit is highly related to your credit history. If you are regular and a punctual in your payments, you are supposed to have a 'good' credit type.

20. **Consumer Credit Counseling Service (CCCS):** Organizations which help consumers find a way to repay debts through careful budgeting and management of funds. These are usually nonprofit organizations, funded by creditors. By requesting that creditors accept a longer payoff period, the counseling services can often design a successful repayment plan.

21. **Debt Consolidation:** This is a process where your multiple debts are consolidated into one loan amount. Debt consolidation saves you from the harassment of the creditors and also gives you the leverage of repaying your debts in affordable monthly installment. In a debt consolidation program a major percent of your debt amount is eliminated. All the late fees and hidden taxes are also eliminated. Usually one can pay off their debts within a reasonable period of time with the help of such programs. However the time period to clear a particular debt depends on the type and amount of debt a person is undergoing.

22. **Delinquency:** When you fail to abide by the loan agreement and miss out on making payments within the time period, delinquency takes place.

23. **Equifax:** This is one of the most renowned and remarkable amongst the three credit bureaus operating in the US. The other two are Experian and Transunion.

24. **Finance Charge:** This is calculated on the total amount of dollars which the credit is equivalent to.

25. **Fair, Isaac and Co:** The Company who is the inventor of the credit-scoring software.

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26. **FICO:** Also known as the Fair, Isaac score, FICO is the most popular and well-known credit-scoring process used by the creditors. Your FICO can range from 200 to 900. Any FICO score above 720 can be termed as a good one and any score below 550 needs major attention. According to this system, the more your FICO score raises the better your prospects are to get approved for a loan.

27. **Interest:** The additional fee a lender charges on the original loan amount for allowing the borrower to use his funds for a given time period.

28. **Interest Rate:** The amount of money a lender charges a borrower for lending giving him the financial support. The rate is calculated by dividing the total amount of interest charged by the loan amount.

29. **Lender:** It can be an individual, the bank, any financial institution or mortgage broker offering the loan.

30. **Lender Fees:** This is the amount of money a debtor has to pay a lender as fees.

31. **Lender Processing Fee:** This fee is given for an analysis of your loan application along with the compilation of the necessary supporting documentation to close the loan.

32. **Payments:** Every month you are required to put money towards what you owe which is considered your monthly payment.

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